

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-031  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

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AUDIT STAFF

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Auditor

AUDIT REPORT NUMBER

#08-031

32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Dale Dykema, President  
Board of Directors  
32nd DAA, Orange County Fair  
88 Fair Drive  
Costa Mesa, California 92626

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 32nd District Agricultural Association (DAA), Orange County Fair, Costa Mesa, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 32nd DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 32nd DAA, Orange County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 32nd DAA, Orange County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-031, on the 32nd DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 32nd DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA  
Chief, Audit Office

April 18, 2008

**32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION  
December 31, 2007 and 2006**

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Cash in Bank (Note 2)	111-117	\$ 24,797,098	\$ 24,360,654
Accounts Receivable, Net (Note 3)	131	829,145	1,167,163
Other Assets	120-162	23,805	21,198
Construction In Progress (Note 4)	190	2,304,345	1,382,399
Land (Note 4)	191	133,553	133,553
Buildings and Improvements, Net (Note 4)	192	19,797,414	18,909,958
Equipment, Net (Note 4)	193	829,157	569,842
<b>TOTAL ASSETS</b>		<b><u>48,714,517</u></b>	<b><u>46,544,767</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities and Other Credits</b>			
Accounts Payable & Other Liabilities	212-227	615,932	579,515
Deferred Revenue	228	390,461	266,948
Guaranteed Deposits	245	77,082	51,645
Compensated Absences (Note 1)	248	837,862	775,986
<b>Total Liabilities and Other Credits</b>		<b><u>1,921,337</u></b>	<b><u>1,674,094</u></b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	22,505	22,642
Net Resources - Operations	291	23,706,205	23,852,279
Net Resources - Investment in Capital Assets	291.1	23,064,470	20,995,752
<b>Total Net Resources Available</b>		<b><u>46,793,180</u></b>	<b><u>44,870,673</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 48,714,517</u></b>	<b><u>\$ 46,544,767</u></b>

**32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
December 31, 2007 and 2006

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>REVENUE</b>			
Project Reimbursements	319	\$ -	\$ 42,000
Admissions	410	5,721,999	4,478,749
Commercial Space	415	1,046,015	1,044,350
Carnival	421	1,814,407	1,684,925
Concessions	422	3,653,448	2,865,301
Exhibits	430	61,043	62,728
Attractions - Fairtime	460	4,444,252	3,629,540
Miscellaneous Fair	470	3,402,937	2,937,469
Junior Livestock Auction	476	14,853	13,826
Non-Fair Revenue (Note 6)	480	8,427,149	7,977,887
Prior Year Adjustments - Revenue	490	103	125
Other Revenue	495	1,390,103	1,188,272
<b>Total Revenue</b>		<b><u>29,976,309</u></b>	<b><u>25,925,172</u></b>
<b>EXPENSES</b>			
Administration	500	3,320,970	3,125,511
Maintenance and Operations	520	7,663,285	7,126,132
Publicity	540	3,142,700	3,170,502
Attendance	560	2,402,401	2,127,495
Miscellaneous Fair	570	581,696	522,465
Junior Livestock Auction	576	14,921	12,419
Premiums	580	105,959	95,732
Exhibits	630	1,402,878	1,534,740
Attractions - Fairtime	660	6,847,148	6,065,745
Equipment and Non-Capitalized Expenditures	723	48,904	105,777
Prior Year Adjustments - Expenses	800	918,001	26,345
Cash Over/Under	850	996	7,313
Depreciation Expense	900	1,603,944	1,451,961
Other Operating Expense	940	-	13,599
<b>Total Expenses</b>		<b><u>28,053,803</u></b>	<b><u>25,385,736</u></b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		1,922,507	539,436
Resources Available, January 1		44,870,673	44,331,237
<b>Resources Available, December 31</b>		<b><u>\$ 46,793,180</u></b>	<b><u>\$ 44,870,673</u></b>

**32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
December 31, 2007 and 2006**

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 1,922,507	\$ 539,436
Adjustment to Reconcile Excess of Revenue Over Expen: to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	338,018	(282,348)
(Increase) Decrease in Other Assets	(2,607)	12,823
Increase (Decrease) in Accounts Payable & Other Liabilities	36,417	24,189
Increase (Decrease) in Deferred Income	123,513	-
Increase (Decrease) in Guaranteed Deposits	25,437	-
Increase (Decrease) in Compensated Absences Liabilities	61,876	-
Total Adjustments	<u>582,655</u>	<u>(245,336)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>2,505,161</b>	<b>294,100</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Buildings & Improvements	(887,456)	500,805
(Increase) Decrease in Equipment	(259,315)	(247,187)
(Increase) Decrease in Construction in Progress	(921,946)	(393,456)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b><u>(2,068,717)</u></b>	<b><u>(139,838)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u>-</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>436,444</b>	<b>154,262</b>
Cash at Beginning of Year	24,360,654	24,206,392
<b>CASH AT END OF YEAR</b>	<b><u><u>\$ 24,797,098</u></u></b>	<b><u><u>\$ 24,360,654</u></u></b>



**32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 32nd District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Orange County Fair each year in Costa Mesa, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets

and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

**NOTE 2      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 8,025	\$ 46,025
Cash in Bank - Operating	(549,826)	(303,011)
Cash in Bank - Payroll	(43,670)	(56,240)
Cash in Bank - Auction	(2,225)	(12,108)
Cash in Bank - Premium	(1,886)	(5,065)
Cash in Bank - Concentration	298,963	463,327
Cash in Bank - Sweep	336,511	-
Cash in Bank - Investment & Savings	<u>24,751,206</u>	<u>24,227,726</u>
 Total Cash and Cash Equivalents	 <u><u>\$24,797,098</u></u>	 <u><u>\$24,360,654</u></u>

**NOTE 3      ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable	\$ 877,214	\$1,219,972
Allowance for Doubtful Accounts	<u>(48,069)</u>	<u>(52,809)</u>
 Accounts Receivable - Net	 <u><u>\$ 829,145</u></u>	 <u><u>\$1,167,163</u></u>

**NOTE 4      PROPERTY AND EQUIPMENT**

Construction in progress, land, Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Construction In Progress	<u><u>\$2,304,345</u></u>	<u><u>\$1,382,399</u></u>

Land	<u>133,533</u>	<u>133,533</u>
Building & Improvements	40,843,208	\$38,567,493
Less: Accumulated Depreciation	<u>(21,045,794)</u>	<u>(19,657,535)</u>
Building & Improvements - Net	<u>\$19,797,414</u>	<u>\$18,909,958</u>
Equipment	\$ 2,839,194	\$ 2,364,194
Less: Accumulated Depreciation	<u>(2,010,037)</u>	<u>(1,794,352)</u>
Equipment - Net	<u>\$ 829,157</u>	<u>\$ 569,842</u>

NOTE 5 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6      **MINIMUM FUTURE RENTS**

In 2005, the Orange County Fair entered into a new five-year agreement allowing the contractor to continue using the fairgrounds to conduct the weekly swap meet. The agreement specifies that rental payments paid to the Fair are based on a percentage of tenant sales, subject to a minimum amount.

Minimum future rents to be paid to the Orange County Fair under the new agreement are as follows for the next five years:

Fiscal Year ending July 31:

2006	\$3,500,000
2007	\$3,500,000
2008	\$3,500,000
2009	\$3,500,000
2010	<u>\$3,500,000</u>
Total	<u>\$17,500,000</u>

NOTE 7      **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 8      **LITIGATION**

The 32nd DAA is involved in various legal actions arising in the normal conduct of its business, none of which, in the opinion of management, will have a material effect on its financial position or results of operations.

**32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA**

**REPORT DISTRIBUTION**

<b><u>Number</u></b>	<b><u>Recipient</u></b>
1	President, 32nd DAA Board of Directors
1	Chief Executive Officer, 32nd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA

MANAGEMENT REPORT #08-031

YEAR ENDED DECEMBER 31, 2007

32ND DISTRICT AGRICULTURAL ASSOCIATION  
ORANGE COUNTY FAIR  
COSTA MESA, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2007

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AUDIT STAFF

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Ron Shackelford, CPA	Audit Chief
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MANAGEMENT REPORT NUMBER  
#08-031



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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Dale Dykema, President  
Board of Directors  
32nd DAA, Orange County Fair  
88 Fair Drive  
Costa Mesa, California 92626

In planning and performing our audit of the financial statements of the 32nd District Agricultural Association (DAA), Orange County Fair, Costa Mesa, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Orange County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 32nd DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 32nd DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 32nd DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 32nd DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 32nd DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 32nd DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: courtesy passes, Board member tickets/passes, and documentation of expenditures. We have provided three recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 32nd DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### COURTESY PASSES

The Fair exceeded the maximum allowable rate of courtesy admission passes. The California Food and Agricultural Code Section 3026 states, "The percentage of courtesy pass admissions to any state, county, district, or citrus fruit fair shall not exceed 4 percent of the gross paid admission to the fair in the preceding calendar year." In 2007, courtesy passes exceeded 16.8% of the preceding year's gross paid admissions, well above the 4% limitation. The Fair needs to place more emphasis on the importance of public perception and public trust when issuing courtesy passes. It is extremely critical during this time of declining State subsidies, limited resources and budgetary constraints. This was a prior year audit finding.

#### *Recommendation*

1. *The Fair should comply with the California Food and Agriculture Code Section 3026. As a state agency, the Fair has the ultimate responsibility to the public to demonstrate compliance with all state rules and regulations over passes in order to prevent the perception of an inappropriate use of funds.*

### BOARD MEMBER TICKETS/PASSES

The Fair issued a substantial amount of concert tickets, VIP parking passes, admission tickets, and guest pins to the former and current board of directors. The maximum value of these distributions totaled more than \$295,079. This total does not include the value of "gold" card for unlimited carnival rides and the value of any Arena events. According to Division of Fairs and Expositions (F&E) policy, free passes to state-sponsored entertainment events are prohibited. Although the Fair provided our office with its 2007 Board of Director's approved Courtesy Pass Policy, per prior year's audit recommendations, the Fair should be cautioned that, if there is not a legitimate business purpose, distributions of this nature may be deemed a gift of public funds according to the State Constitution.

#### *Recommendation*

2. *We recommend the Fair revisit the issue with the Attorney General's office to ensure the Fair Board is complying with the law.*

### DOCUMENTATION OF EXPENDITURES

The Fair did not fully justify and support the business purpose and necessity for discretionary expenditures totaling \$84,764 for catered dinners provided to board members and their guests during the fair. Sound accounting, good business practices, and the requirements of F&E internal policy over public relations and promotional expenses mandate specific and detailed information for all persons incurring such expenses, including members of the Board of Directors. All claims must include the names of all recipients of the item or benefit,

purpose of the expenditure, justification for providing food or a meal, the specific topics discussed during the event, and the necessity of or the benefits expected to accrue to the Fair by entertaining. This was a prior year audit finding.

*Recommendation*

3. *The Fair should follow F&E internal policy by requiring that all claims for payment of promotional or public relations expenses must include the names of all recipients of the item or benefit, and the purpose of the expenditure, justification for the food or meal, specific business topics discussed during the event, and necessity of or the benefits expected to accrue to the Fair by entertaining. A claim that does not meet all the requirements should not be approved for payment.*

## NON-REPORTABLE CONDITIONS

### ADMISSION RECEIPT AND CHANGE FUNDS

The Fair cashed entertainers' checks from the change fund. During our review, we noted 23 instances where the Fair cashed checks ranging from \$90 to \$32,500 totaling \$141,400. State Administrative Manual (SAM) Section 8032.4, Coin and Currency, prohibits this practice by state agencies. According to Section 8032.4, "agencies will not disburse or withhold receipts for the purposes of establishing or augmenting an over-the-counter change fund. [Furthermore] agencies will also not use receipts to be deposited to cash checks". The change fund should be deposited intact; this helps circumvent any instance of temporary borrowing or any other kiting schemes of any kind.

#### *Recommendation*

*The Fair should refrain from cashing entertainer's check, and the Fair should review SAM Section 8032.4 for the proper use of the change fund.*

### SPONSORSHIP AGREEMENT

The Fair did not retain evidence that they complied with the sponsorship agreement pursuant to the Food and Agriculture Code section 4051.1. According to Section 4051.1, "written notification to the department shall be required ... prior to entering into any agreement ... if the agreement exceeds \$100,000 in value, exists for a period of greater than two years." The Fair is required to obtain an approval from F&E prior to entering and the execution of the agreement since the Fair is under their jurisdiction. Based on our review, we noted the Fair did not retain correspondence from F&E for the approval of the sponsorship agreement totaling \$360,000.

#### *Recommendation*

*The Fair should emphasize better controls and procedures regarding sponsorship agreements, and the Fair should retain evidence that the Fair obtained approval from F&E for any sponsorship agreement meeting the requirements under the Food and Agriculture Code Section 4051.1.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



January 22, 2009

Ron Shackelford  
Chief, Audit Office  
CDFA Audit Office  
1220 N Street, Room 344  
Sacramento, CA 95814

Dear Ron:

Management staff, the CEO, and the Board Chair have reviewed the District's 2007 preliminary draft financial and management reports (#08-031). The following response and plan has been prepared in reply to the three reportable conditions and two non-reportable conditions included in the management report.

Chair Vandermost and I have reviewed the response presented by management and feel that it is a practical and workable plan to answer the recommendations in the management report. We look forward to reviewing the final report, which pursuant to our standard procedures, will be presented to the Board of Directors for its acceptance.

Sincerely,

Julie Vandermost  
Chair, Board of Directors

Steve Beazley  
President & CEO

cc: Division of Fairs and Expositions

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105 06 121



**32<sup>nd</sup> District Agricultural Association**  
OC Fair & Event Center  
2007 Management Report – Responses to Reportable Conditions

The following response and plan has been prepared in reply to the reportable conditions and recommendations included in the management report.

**MANAGEMENT REPORT RECOMMENDATIONS**

**Courtesy Passes - Recommendation:**

***1. The Fair should comply with the California Food and Agriculture Code Section 3026. As a State Agency, the Fair has the ultimate responsibility to the public to demonstrate compliance with all state rules and regulations over passes in order to prevent the perception of an inappropriate use of funds.***

Response: The District believes that sensible issuance of complimentary admission passes results in significant benefit to the Fair. Complimentary admissions provide sizeable benefits for public promotional opportunities; in exchange for goods and services provided by partners; and in terms of business development and relationship building which help develop and improve the fair event and the OC FEC facility.

During 2008, the District's Board of Directors adopted a Courtesy Pass Policy which clarifies guidelines for the issuance of complimentary fair tickets. This policy delineates specific purposes for which courtesy admissions may be requested; recommends a maximum amount of courtesy passes to be issued each year; sets guidelines for Directors to request complimentary tickets; and specifies recordkeeping requirements. A copy of the policy was forwarded to CDFA.

In 2008, the District reduced its percentage of courtesy pass admissions from 16.8% to 7.4% of prior year paid admissions. In 2009, the District will take additional steps to achieve the statutory 4% limitation on courtesy admissions per Food and Agriculture Code Section 3026. District staff and the Board will develop a plan to prioritize and allocate the 4% among the various categories of complimentary admissions.

**Board Member Tickets/Passes - Recommendation:**

***2. We recommend the Fair revisit the issue with the Attorney General's Office to ensure the fair board is complying with the law.***

Response: On August 28, 2008, the Board of Directors approved a set of policies which substantially reduced the number of concert tickets, parking passes, admission tickets, and guest pins available for distribution to the Board. Prior to the 2009 fair, the District will be revising its policies pursuant to the recent Fair Political Practices Commission (FPPC) ruling on public agency ticket issues. A copy of the 2008 policy was forwarded to CDFA. Any new policy will be forwarded upon adoption by the Board.

**Documentation of Expenditures - Recommendation:**

**3. *The Fair should follow F&E's internal policy by requiring that all claims for payment of promotional or public relations expenses must include the names of all recipients of the item or benefit, and the purpose of the expenditure, justification for the food or meal, specific business topics discussed during the event, and necessity of or the benefits expected to accrue to the Fair by entertaining. A claim that does not meet all the requirements should not be approved for payment.***

Response: As part of the set of policies adopted by the Board on August 28, 2008, guidelines have been clarified regarding hospitality provided during the OC Fair, including allowable purposes; recommended maximum limits; and recordkeeping requirements. Those recommending guests to hospitality functions are responsible for submitting documentation on the guests' affiliation and business purpose of the entertainment. Additionally, board members may also invite personal guests to hospitality functions provided that the cost is reimbursed. A copy of the 2008 policy was forwarded to CDFA.

**32<sup>nd</sup> District Agricultural Association**  
OC Fair & Event Center  
2007 Management Report – Responses to Non-Reportable Conditions

The audit office's cover letter to the management report states regarding non-reportable conditions: "These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 32<sup>nd</sup> DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions." The following response and plan has been prepared in reply to the non-reportable conditions and recommendations included in the management report.

**MANAGEMENT REPORT RECOMMENDATIONS**

**Admission Receipt and Change Funds - Recommendation:**

***The Fair should refrain from cashing entertainers' checks, and the Fair should review SAM Section 8032.4 for the proper use of the change fund.***

Response: In the past, the District had paid a portion of major entertainers' payments in cash as a courtesy, upon the request of the entertainers' representatives. The District has already discontinued this practice. When doing so in the past, the District followed a strong set of policies and controls to ensure the integrity of such transactions. No errors or exceptions ever occurred as a result of this past practice.

**Sponsorship Agreement - Recommendation:**

***The Fair should emphasize better controls and procedures regarding sponsorship agreements, and the Fair should retain evidence that the Fair obtained approval from F&E for any sponsorship agreement meeting the requirements under the Food and Agriculture Code Section 4051.1.***

Response: The District follows a sound set of policies and procedures regarding sponsorship agreements. In the one exception noted by the audit office, the sponsorship agreement in question was submitted to the Division of Fairs & Expositions (F&E) for approval, under standard procedures. F&E did not respond to the District to indicate either approval or denial. In this case, District staff did not retain any evidence that this specific agreement was sent to F&E. Following this recommendation, District staff is now confirming by e-mail with F&E when an agreement has been submitted for approval, and is retaining these e-mail records on file.


### **CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 32nd DAA, Orange County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report. However, the Fair's response to Recommendation #2 needs additional clarification. The Fair states that the Board of Directors substantially reduced the number of concert tickets available for distribution to the Board. This reduction does not eliminate the need to document the business purpose for any distribution of these tickets to their board members in the future. Without the business purpose documented, this raises the gift of public funds issue.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 7, 2008 and April 18, 2008. My staff met with management on April 18, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA  
Chief, Audit Office

April 18, 2008

**REPORT DISTRIBUTION**

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1	President, 32nd DAA Board of Directors
1	Chief Executive Officer, 32nd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office